

Embargo: Wednesday, 12 November 2008, 10am GMT

Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 4th quarter 2008, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Ifo Economic Climate Indicator Still Declining

The Ifo Economic Climate in the euro area has worsened again in the fourth quarter of 2008 for the fifth time in succession and has now fallen to the lowest level since 1993. The decline in the Ifo indicator is primarily the result of less favourable assessments of the current economic situation. The pessimistic level of the expectations for the coming six months remains virtually unchanged. These survey results suggest that the economic decline will continue in the euro area.

The economic climate indicator has fallen in the fourth quarter of 2008 in nearly all countries of the euro area and is now clearly below its long-term average. The most unfavourable economic climate prevails in *Spain* and *Ireland*. The assessments of the current economic situation have worsened this time especially in *Italy, Belgium, France, Austria* and *Germany*. The expectations for the coming six months remain clearly pessimistic in most countries, in *Ireland, Portugal* and *the Netherlands* they have further deteriorated.

In the course of the coming six months a strong decline in the rate of inflation is anticipated. Key interest rates will be lowered further during the coming six months in the opinion of the WES experts; capital market interest rates are also expected to decline.

In comparison to the euro, the *US dollar* is assessed as undervalued despite the increase in value that has occurred. In the coming six months a further recovery of the *US dollar* is expected. After having increased in value the *Japanese yen* is now seen as only slightly undervalued. The *British pound* is regarded as properly valued vis-à-vis the *euro*.

Hans-Werner Sinn, President of the Ifo Institute for Economic Research at the University of Munich

Euro area (Index, 1995 = 100)

Quarter/year	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08	III/08	IV/08
Climate	97.5	100.0	106.8	111.9	90.7	81.4	76.3	61.9	50.9
Situation	125.2	129.0	130.8	138.3	123.4	112.1	100.9	84.1	61.7
Expectations	74.4	76.0	86.8	89.9	63.6	55.8	55.8	43.4	41.9

The Ifo World Economic Survey (WES) investigates world-wide economic trends by polling transnational as well as national organisations in different countries. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. The full set of results will be published on 20 November 2008.

The 4th quarter 2008 euro area results, which are published here in advance, are based on the responses of 262 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

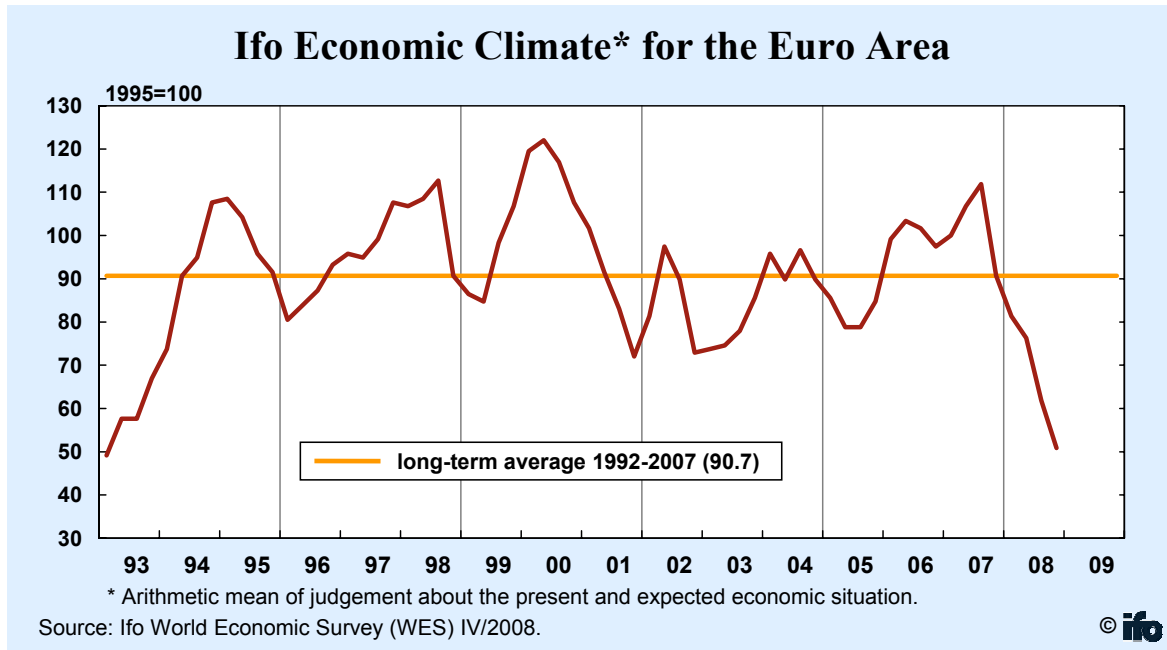


Fig. 2

